

FORECASTING USING PROJECTIONS

Help clients make changes that can positively impact
their financial condition

profitcents[®]

Course Agenda

Running a Projection Report

“What If” Scenarios

Loan Analysis

DCF Valuation

Best Practices & Reporting





Ability to perform quick “what-if” scenario analysis for consulting engagements



Calculate thumbnail Discounted Cash Flow Valuations



Produce a projected, narrative analysis describing where the business will be



Forecast client financials to help plan for the future,



Project cash flow and analyze existing and potential loans

Features and Benefits

Running a Projection Report

Things to Remember

Periods of Data

- 1 period
 - industry averages
- 2-5 periods
 - regression analysis

Statement of Equity

- Beginning retained earnings
- Dividends paid/withdrawals

Business Loans

- Cash flow statement
- Itemize balance sheet debt
- Loan analysis

Loan Analysis

Review Financial Data [Marketing Consulting Services / Projection](#)

[Home](#) > [Reports](#) > [Companies](#) > [Pick Data](#) > [Income Statement](#) > [Balance Sheet](#) > [Statement of Equity](#) > [Business Loans](#)

Income Statement Balance Sheet Statement of Equity **Business Loans**

[Information on Using this Business Loans Page](#)

12/31/2016 12/31/2017 12/31/2018

Balance Sheet Debt Summary

Total Debt from Balance Sheet: ▶ **\$61,289**

Total Balance of all Current Loans (from below): **\$0**

Outstanding Balance Sheet Debt: **\$61,289**

Do not automatically create loans for Balance Sheet debt not itemized below.

Note: Please use this screen to enter in historical and current loan information only. **Do not enter any future loans here.** We will collect information on future loans later.

Please itemize this business' debt for the period ending: **12/31/2018**

Loan Description	Payment Type	Current Balance	Payment Amount	Interest Rate (optional)	Remaining Term (optional)	Debt Seniority	Comments	Expand All
<input type="text"/>	<input type="text"/>	\$ 0	\$	%			<input type="text"/>	Expand <input type="checkbox"/>
Total:		\$ 0	\$ 0					

Results 1 - 1 of 1

[+ Add a New Loan](#)

Analyzes historical debt structure

Models future debt and cash flow

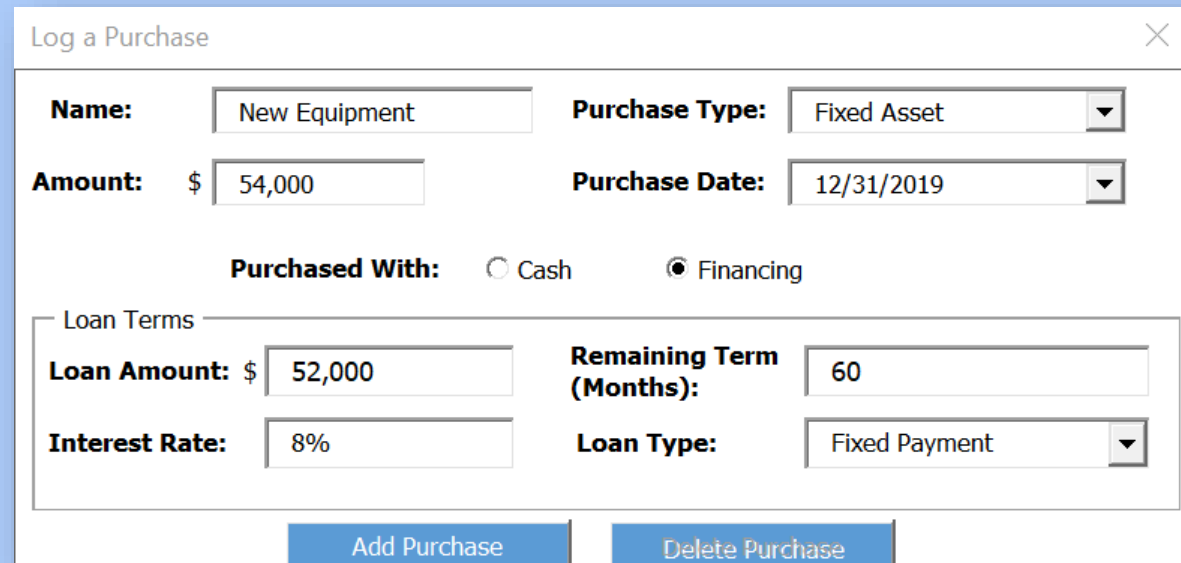
Provides key metrics for obtaining financing

Able to itemize Balance Sheet debt to provide accurate cash flow analysis

Model Future Debt

A manufacturing client has outdated machinery. They want to upgrade their machinery to increase efficiency.

Model the impact on debt structure and cash flow with “Log a Purchase”



The screenshot shows a software window titled "Log a Purchase" with a close button in the top right corner. The form contains the following fields and options:

- Name:** Text input field containing "New Equipment".
- Purchase Type:** Dropdown menu set to "Fixed Asset".
- Amount:** Text input field containing "\$ 54,000".
- Purchase Date:** Dropdown menu set to "12/31/2019".
- Purchased With:** Radio button options for "Cash" (unselected) and "Financing" (selected).
- Loan Terms:** A sub-section containing:
 - Loan Amount:** Text input field containing "\$ 52,000".
 - Remaining Term (Months):** Text input field containing "60".
 - Interest Rate:** Text input field containing "8%".
 - Loan Type:** Dropdown menu set to "Fixed Payment".

At the bottom of the form are two buttons: "Add Purchase" and "Delete Purchase".

Refinance Loan(s) [X]

Step 1
Select the existing loan(s) that you would like to include in this refinancing:

Loan Number	Description	Borrower	Balance	Payment Amount	Interest Rate
<input type="checkbox"/>	Senior Debt	Marketing Consulting Services	\$61,289.00	\$460.62	8.00%

Step 2
Enter the terms of the proposed loan(s) below:

Loan Description: New Loan
Primary Borrower: Marketing Consulting Services (Business)
Payment Type: Fixed Payment
Financing: Senior Debt
Loan Amount (\$): 0.00
Interest Rate: 8.00 %
Remaining Term: 60
Payment Amount (\$): 0.00
Amortization Days: Actual 360
Payment Frequency: Monthly
Compounding Frequency: << Same as Payment Frequency >>
Refinancing Date: 1/31/2019
Comments:

Refinancing Loans:

REFINANCING

A client has several outstanding loans.
Show how refinancing these loans can:



INCREASE CASH
FLOW



REDUCE
INTEREST RATES



REDUCE TIME
PAYING BILLS



GET THEM OUT
OF DEBT FASTER

DETERMINE KEY METRICS

Businesses		
EBITDA: <input type="text" value="1"/>	(\$93,140)	(\$93,140)
<i>Marketing Consulting Services</i>	<i>(\$93,140)</i>	<i>(\$93,140)</i>
Estimated Debt Service	\$5,527	\$5,527
<i>Marketing Consulting Services</i>	<i>\$5,527</i>	<i>\$5,527</i>
Discretionary Cash Flow	(\$98,667)	(\$98,667)
Debt Service Coverage Ratio	--	--
<i>Marketing Consulting Services</i>	--	--
Interest Coverage Ratio	--	--
Total Sales (Income)	\$425,357	\$425,357
Gross Profit	\$288,572	\$288,572
Gross Profit Margin	67.84%	67.84%
Total Assets	\$144,711	\$144,711
<i>Marketing Consulting Services</i>	<i>\$144,711</i>	<i>\$144,711</i>
Total Liabilities	\$71,152	\$71,152
<i>Marketing Consulting Services</i>	<i>\$71,152</i>	<i>\$71,152</i>
Total Equity	\$73,559	\$73,559
Debt to Equity Ratio	0.97	0.97

- Help provide documentation to give a bank if a client is considering refinancing, consolidating, or adding new loans

Management Level Valuation



Succession Planning



Discussions with Management



Buying and Selling

Valuation: Cash Flow

Cash Flow					
	12/31/2019	12/31/2020	12/31/2021	12/31/2022	12/31/2023
EBIT	(\$100,516)	(\$91,933)	(\$76,607)	(\$60,624)	(\$46,476)
Less: Taxes	\$0	\$0	\$0	\$0	\$0
② Noncash Expenses	\$0	\$0	\$0	\$0	\$0
② Less: Change in Working Capital	(\$35,348)	(\$18,854)	(\$10,692)	(\$6,063)	(\$3,438)
Less: Capital Expenditures	\$0	\$0	\$0	\$0	\$0
Free Cash Flow	(\$65,168)	(\$73,079)	(\$65,915)	(\$54,561)	(\$43,038)
Present Value of Cash Flows (End of Year)	(\$58,615)	(\$59,121)	(\$47,963)	(\$35,709)	(\$25,335)

Present Value of Cash Flows = Net Free Cash Flow / (1 + Discount Rate) ^ X where X = Projected Year (1, 2, 3, etc)

Discount Rate	=	Risk Free Rate	+	Risk Premium
11.18% ②	=	1.18% ②	+	10.00% ②

- Discount Rate
- Risk Free Rate
- Risk Premium

Valuation: Terminal Value

- The terminal value is a rough estimate of what the company will be worth at the end of the projection

Terminal Value

The terminal value is a rough estimate of what the company will be worth at the end of the projection. It is usually difficult to project cash flows for more than 5 years, the last projected cash flow is treated as a perpetuity - an endless annual stream of cash flows that will grow at a specified rate.

Terminal Value = $(\text{Free Cash Flow (Year 5)} * (1+G)) / (DR - G) * (1 / (1+DR))^5$
Terminal Value = $(-43038 * (1 + 0.03)) / (0.1118 - 0.03) * (1 / (1+0.1118))^5$
Terminal Value = (\$319,009)

Calculation Parameters

Discount Rate:	11.18%	?
G (Estimated Growth Rate):	3.00%	?
Free Cash Flow (Year 5):	(\$43,038)	
Terminal Value:	(\$319,009)	?

Valuation: Preliminary & Final Company Value

Valuation

In addition to the discounted cash flows and the terminal value, the valuation also accounts for cash on hand, long term investments, and long term debt. Taking on debt to purchase a company diminishes its value, whereas a company with cash on hand or long term investments will be more highly valued. For example, a company that will neither generate nor lose cash flow in the future (it will just break even indefinitely) would have a cash flow value of zero. However, if that company has \$1 million in cash, the valuation should reflect this. By making these adjustments, a reasonable company value can be determined. If you would like to modify any of these values, please do so by directly changing the amount listed for that variable.

Preliminary Company Value	=	Discounted Cash Flow	+	Terminal Value	+	Cash	+	Long Term Investments	-	Long Term Debt
\$5,575,116	=	\$1,146,497	+	\$4,485,580	+	\$4,328	+	\$0	-	\$61,289
Final Company Value	=	Preliminary Value * (1 - K)								
\$4,794,600	=	\$5,575,116 * (1 - 0.14)								

Calculation Parameters

K (Marketability Discount): 14.00%

Company Value: \$4,794,600

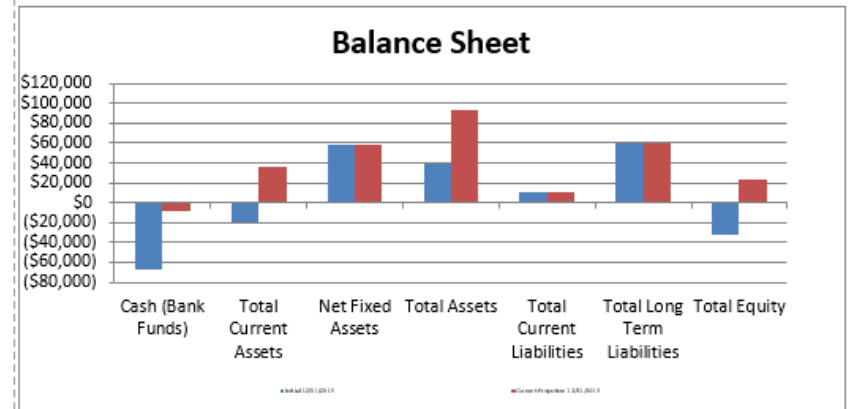
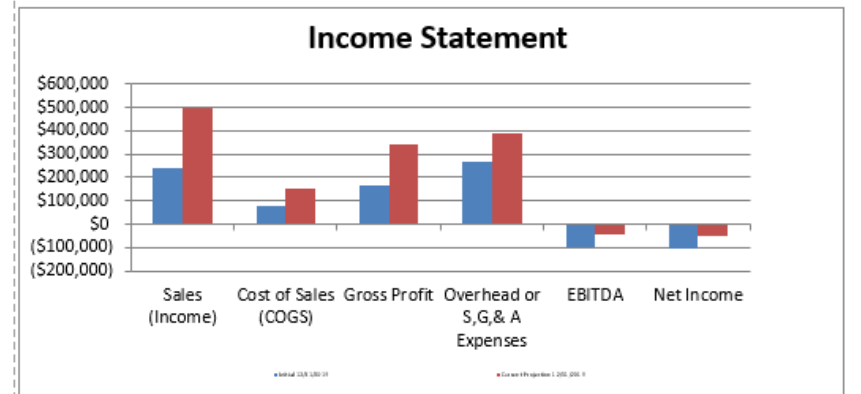
Scenario Dashboard

Visually
aesthetic

Demonstrate
before & after
scenarios

Marketing Consulting Services
Take a snapshot of a projection and perform a what-if scenario on the current projection using the projection controls.

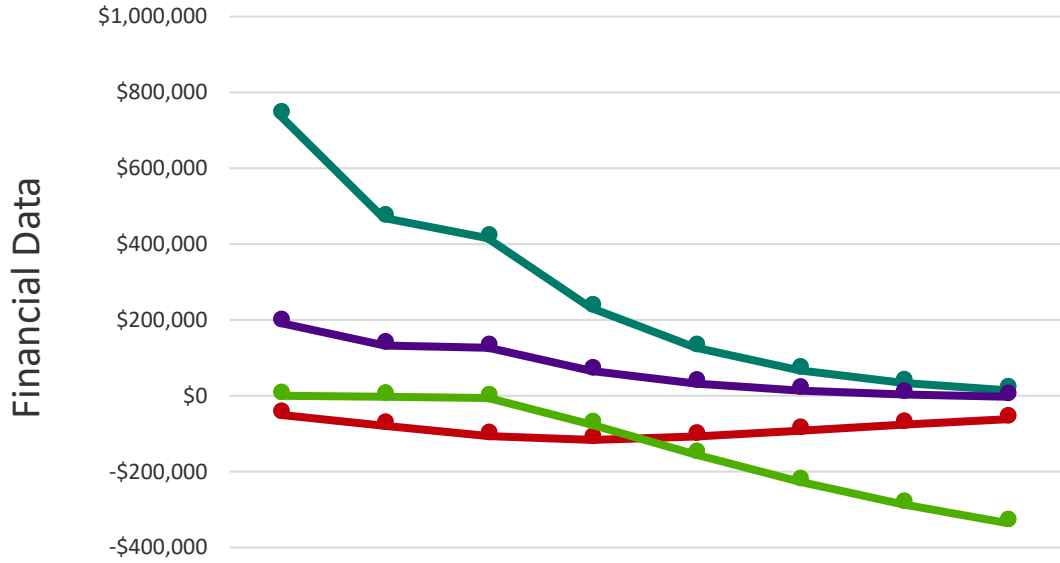
	Initial 12/31/2019	Current Projection 12/31/2019
Income Statement		
Sales (Income)	\$241,219	\$497,668
Cost of Sales (COGS)	\$75,333	\$155,422
Gross Profit	\$165,886	\$342,246
Overhead or S,G,& A Expenses	\$265,502	\$386,524
EBITDA	(\$100,516)	(\$45,178)
Net Income	(\$105,466)	(\$50,128)
Balance Sheet		
Cash (Bank Funds)	(\$66,367)	(\$8,381)
Total Current Assets	(\$20,013)	\$35,325
Net Fixed Assets	\$58,681	\$58,681
Total Assets	\$38,668	\$94,006
Total Current Liabilities	\$10,489	\$10,489
Total Long Term Liabilities	\$60,085	\$60,085
Total Equity	(\$31,907)	\$23,431
Valuation		
Company Value	(\$587,370)	\$1,747,828
Projection Assumptions		
Sales Growth	-43.29%	17.00%
Overhead Growth	-30.28%	1.50%
Gross Profit Margin	68.77%	68.77%
Accounts Receivable Days	65.9 days	30 days
Accounts Payable Days	0 days	0 days
Inventory Days	0 days	0 days



FINANCIAL RATIOS

	12/31/2019	12/31/2020	12/31/2021	12/31/2022	12/31/2023
Liquidity Ratios					
Current Ratio	3.37	3.51	9.52	22.36	43.16
Quick Ratio	3.10	3.24	9.25	22.10	42.90
Working Capital	\$24,835	\$26,461	\$90,269	\$227,747	\$452,339
Financial Leverage / Coverage Ratios					
Total Equity	\$23,431	\$25,736	\$90,281	\$228,557	\$454,015
Debt to Equity Ratio	3.01	2.72	0.77	0.30	0.15
Tangible Net Worth	\$23,431	\$25,736	\$90,281	\$228,557	\$454,015
Debt to Tangible Net Worth Ratio	3.01	2.72	0.77	0.30	0.15
Debt Service	\$5,527	\$5,527	\$5,527	\$5,527	\$5,527
Debt Service Coverage Ratio	-8.17	1.30	12.56	25.89	41.65
Interest Coverage Ratio	-9.13	1.47	14.31	29.86	48.67
Senior Debt to Cash Flow	-1.34	8.34	0.86	0.41	0.25
Debt to Cash Flow	-1.56	9.71	1.00	0.48	0.29
Debt to Capitalization	75.07%	73.10%	43.42%	23.07%	12.98%
Profitability Ratios					
Operating Profit Margin	-8.90%	1.39%	10.32%	18.06%	24.78%
Net Profit Margin	-10.07%	0.40%	9.47%	17.35%	24.18%
Return on Equity	-213.93%	8.96%	71.49%	60.50%	49.66%
Return on Assets	-53.32%	2.41%	40.45%	46.54%	43.21%
Activity / Efficiency Ratios					
Accounts Receivable Days	30.00 Days	30.00 Days	30.00 Days	30.00 Days	30.00 Days
Accounts Payable Days	0.00 Days	0.00 Days	0.00 Days	0.00 Days	0.00 Days
Inventory Days	0.00 Days	0.00 Days	0.00 Days	0.00 Days	0.00 Days
Gross Fixed Asset Turnover	8.45	9.89	11.57	13.54	15.84

Marketing Consulting Services



	12/31/2016	12/31/2017	12/31/2018	12/31/2019	12/31/2020	12/31/2021	12/31/2022	12/31/2023
Sales (Income)	\$750,000	\$478,563	\$425,357	\$241,219	\$136,796	\$77,577	\$43,994	\$24,949
Cost of Sales (COGS)	\$202,335	\$143,234	\$136,785	\$75,333	\$42,721	\$24,227	\$13,739	\$7,792
Net Profit Before Taxes	-\$39,876	-\$68,717	-\$95,603	-\$105,466	-\$96,834	-\$81,455	-\$65,415	-\$51,205
Cash (Bank Funds)	\$10,365	\$8,405	\$4,328	-\$66,367	-\$144,974	-\$216,416	-\$276,505	-\$325,070

PROJECTION CHART

Projected Narrative

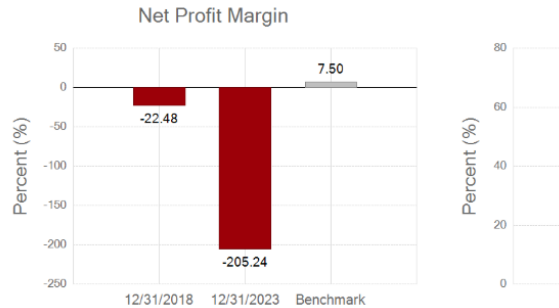
⊖ Profits & Profit Margin ●●●●● 18 out of 100

A measure of whether the trends in profit are favorable for the company.

It is good to see the company improve net profitability (in dollars) from the current period. Improving profitability in dollars is always a good goal. However, keep in mind that the net profit margin is projected to remain weak even relative to the industry in which the company competes. The net margin is the total cents of net profitability extracted out of each sales dollar.

The company will want to continue to improve net profitability in the future. It will be difficult to maintain cash flow and generate acceptable returns on equity and assets if improved net profitability is not achieved. The company's current period net profit margin is projected to be nearly perfect.

📊 Charts and Graphs



This is an important metric. In fact, over time, it is one of the more important barometers that we look at. It measures how many cents of profit the company is generating for every dollar it sells. Track it carefully against industry competitors. This is a very important number in preparing forecasts. The higher the better.

This number indicates how much profit is not paid out in direct costs (costs of sales). It is an important statistic that can be used in business planning because it

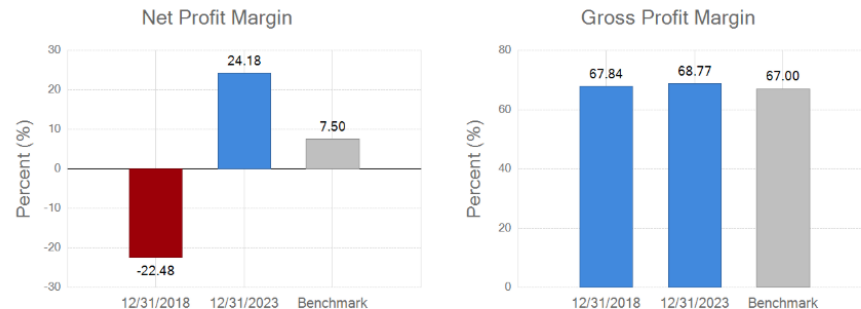
⊖ Profits & Profit Margin ●●●●● 89 out of 100

A measure of whether the trends in profit are favorable for the company.

For the company, net profit margins will improve while sales will improve by 119.24%. The company will generate significantly more revenue than in the current period and manage it better by improving net margins -- an excellent combination. Whatever the company is planning to do seems as if it will work quite well. It looks like the company will be pushing itself nicely within its "relevant range" -- the company's operating range for its current most significant situation. This situation could also imply that the company may be able to push sales and profit to new heights in the future, which is not always easy to achieve.

Because the company will be able to generate more revenue, managers can also think about some general profit management strategies. One good strategy is to make or improve budgets. If managers put together good yearly budgets that are broken down month by month, and those budgets are entered right into the accounting system, managers will be able to pull "variance reports." These are simply reports that show what budgeted expenses and sales are against actual sales and expenses. They are important management tools.

📊 Charts and Graphs



This is an important metric. In fact, over time, it is one of the more important barometers that we look at. It measures how many cents of profit the company is generating for every

This number indicates the percentage of sales revenue that is not paid out in direct costs (costs of sales). It is an important statistic that can be used in business planning because it

THANK YOU!

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